Supreme Court, U.S.
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No. 94-

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In The
SUPREME COURT OF THE UNITED STATES
October Term 1993

ENCORE SYSTEMS, INC.,
VANGUARD INDUSTRIAL PLASTICS, INC.,
and GEORGE R. LEES,

Petitioners,

v.

MICHAEL LADNEY,

Respondent.

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SUPREME COURT, U.S.
WASHINGTON, D.C. 20543

RESPONDENT'S OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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I. STATEMENT OF THE CASE

Michael Ladney ("Ladney") brought this action against Encore Systems, Inc. ("Encore"), Vanguard Industrial Plastics, Inc., and George R. Lees (collectively "Lees") for patent infringement and tortious interference with contractual rights. Ladney's patent infringement claim was based on Lees' use of Ladney's patented technology. Ladney's tortious interference claim was based on Lees' interference with Ladney's rights in a License Agreement between Indra Baxi and James Hendry. (Ladney was an assignee of Hendry's rights in the License Agreement.)

By the License Agreement, Baxi gave Hendry (and hence Ladney) an exclusive license in non-western hemisphere countries to various

technologies developed by Baxi. Lees interfered with Ladney's exclusive license rights when Lees worked with Baxi to license in non-western hemisphere countries the same technology Baxi had exclusively licensed to Hendry/Ladney.

For both of Ladney's counts against Lees, it was critical that he inspect Lees' premises. To determine whether Lees was infringing his patent, Ladney needed to know what technology Lees was using. To determine whether Lees had worked with Baxi to wrongfully license in non-western hemisphere countries technology which Baxi had exclusively licensed to Ladney, Ladney again needed to know what technology Lees was using. After much wrangling to attempt to set up an inspection, United States Magistrate Judge Charles E. Binder directed Lees to

provide for an inspection at Ladney's expense on February 20, 1991. Lees agreed to the inspection. (64a-65a.)

When Ladney arrived for the inspection, however, Lees was disruptive, and the critical components necessary for the inspection were not present. The inspection could not go forward. The district court's summary of the inspection is found on pages 48a-50a of the Appendix.

On February 25, 1991, Ladney moved for entry of a default judgment on liability on the grounds that (1) Lees had refused to permit an inspection of the process and equipment critical to the resolution of this case, despite the fact that Lees had been directed by the Magistrate Judge Binder to provide such an inspection, and Ladney had agreed to pay

for its cost; and (2) Lees had previously repeatedly violated discovery orders.

Lees' repeated discovery violations forced Magistrate Judge Binder and United States District Judge Harvey (who had initially presided over the case) to issue seven discovery orders against Lees, including three orders enforcing prior orders. Those orders are as follows:

- On October 2, 1989, Magistrate Judge Binder issued a discovery order for defendant Encore's failure to respond to Ladney's first set of interrogatories and document requests.
- On February 2, 1990, Magistrate Judge Binder issued an order enforcing his October 2, 1989 discovery order.

Ladney's request for attorneys fees was denied without prejudice.

- On April 17, 1990, Magistrate Judge Binder issued a report and recommendation on Ladney's motion for default judgment against Encore -- Magistrate Judge Binder recommended that sanctions be awarded, but that Ladney's request for default judgment be denied.
- On July 25, 1990, Judge Harvey adopted Magistrate Judge Binder's April 17, 1990 recommendation, and ordered Encore's counsel to pay Ladney attorneys fees and costs incurred in bringing Ladney's motion.
- On November 2, 1990, Judge Harvey issued an order <u>enforcing</u> his July 25, 1990 order.

- On August 30, 1990, Magistrate Judge Binder issued a discovery order requiring Messrs. George Lees and Indra Baxi to appear for a deposition during the month of September, 1990.
- On January 2, 1991, Magistrate Judge Binder issued an order enforcing his August 30, 1990 discovery order.

Magistrate Judge Binder's description of the discovery abuse is found at pages 67a-70a of the Appendix.

Judge Harvey referred the matter to Magistrate Judge Binder, who recommended that a default judgment be entered against defendants. (74a.)

On January 31, 1992, United States District Judge Barbara K. Hackett (who received the case from Judge Harvey) accepted the recommendation of Magistrate Judge Binder and ordered that a default

judgment on liability be entered against Lees in favor of Ladney. (48a-62a.) On October 28, 1993, the Federal Circuit held that the district court did not abuse its discretion in ordering a discovery sanction of default judgment under Fed. R. Civ. P. 37(b)(2)(C), and therefore affirmed the order of default judgment of liability. (12a.)

II. THE PETITION FOR WRIT OF CERTIORARI SHOULD BE DENIED

Lees argues that its Petition should be granted for three reasons:

(1) The Federal Circuit's decision is inconsistent with decisions of the Sixth Circuit;

(2) The Federal Circuit's decision is inconsistent with decisions of this Court; and

(3) The Courts of Appeal have entered inconsistent decisions regarding the requirements of an order under Federal Rule of Civil Procedure 37(b).

None of Lees' arguments are valid.

A. The Federal Circuit Correctly Applied Sixth Circuit Law

1. The Federal Circuit Applied The Three-Part Analysis Articulated In *Regional Refuse*

Lees first argues that the Federal Circuit did not correctly apply Sixth Circuit law, and in particular the three factors articulated in *Regional Refuse Sys. v. Inland Reclamation Co.*, 842 F.2d 150, 154 (6th Cir. 1988). *Regional Refuse* states that three factors -- (1) prejudice, (2) prior warning, and (3) prior imposition of less drastic sanctions -- should be considered in reviewing a default judgment sanction. The district court made findings on each of these three factors. Similarly, the Federal Circuit expressly considered each finding and affirmed the district court's decision.

a. The District Court Found (1) Prejudice, (2) Prior Warning, And (3) Progressive Sanctions

The district court found that the subject of the aborted inspection was "critical" to the resolution of this case, and that Ladney was therefore prejudiced by Lees' refusal to provide the inspection. At a January 21, 1992 hearing on Lees' objections to Magistrate Judge Binder's report on Ladney's motion for default judgment, Judge Hackett stated:

> Certainly, we can find on the record in this case, that the party was prejudiced. There's no way -- this is critical.
>
> There's no way this case can go forward without that discovery, it's the heart of this lawsuit. Repeatedly requested.
>
> (Tr. in Fed. Cir. Appendix, emphasis added.)

The district court also addressed the warning issue. Lees'

discovery abuses necessitated seven orders from Magistrate Judge Binder and Judge Harvey. In those orders, Lees was warned more than once that default judgment was possible if the discovery violations continued. Magistrate Judge Binder's findings on this issue are located at pages 69a-70a of the Appendix.

Judge Hackett made her findings at the January 21, 1992 hearing on Lees' objections:

> I must find on this record that having twice previously been sanctioned, there's no way . . . that the defendants could argue that they didn't know what would happen in a case if they failed to cooperate.

(Tr. in Fed. Cir. Appendix.)

Finally, it is clear that the district court imposed lesser sanctions before imposing the default judgment sanction. Magistrate Judge Binder and

Judge Harvey issued seven discovery orders before ordering default judgment. In his July 25, 1990 order Judge Harvey ordered monetary sanctions, even though Ladney had requested a default judgment. As Judge Hackett stated at the January 21, 1992 hearing on Lees' objections:

> [T]hese parties have been previously sanctioned. This file is voluminous and I think the Magistrate said it all when he stated straight out that this is one of the worst he's ever had.
>
> (Tr. in Fed. Cir. Appendix.)

b. The Federal Circuit Considered And Affirmed The District Court's Findings On (1) Prejudice, (2) Prior Warning, And (3) Progressive Sanctions

Lees contention that the Federal Circuit misapplied Sixth Ciruit law ignores the Federal Circuit's opinion, where the court specifically addressed each of these factors:

During the course of litigation, Encore willfully and repeatedly violated discovery orders, and Ladney was **prejudiced** by Encore's failure to cooperate in the discovery process. Encore prevented Ladney from inspecting the "Encore process" even though the magistrate judge had ordered the inspection and Ladney had agreed to cover the costs. This inspection was necessary for Ladney and his expert to determine whether Encore was sub-licensing the "Encore process" or the "Baxi process" and whether the related apparatus of the process infringed U.S. Patent No. 4,781,544. Encore had already conducted a demonstration of the process for the benefit of its own expert. Second, the magistrate judge had previously **warned** Encore that further noncompliance with discovery orders could result in case dispositive sanctions. Finally, in the past the district court had **imposed less drastic sanctions**, and it considered such sanctions before ordering default judgment following the events of February 20, 1991.

(10a-12a, emphasis added.)

Lees' attack on the Federal Circuit can only be an attempt to obtain *de novo* review of the district court's findings on these points. As this Court has held, however:

> The question, of course, is not . . . whether the Court of Appeals, would as an original matter have applied the sanction; it is whether the District Court abused its discretion in so doing.
>
> *Ins. Corp. of Ireland v. Compagnie Des Bauxites*, 456 U.S. 694, 707 (1982), quoting *National Hockey League v. Metropolitan Hockey Club, Inc.*, 427 U.S. 639, 692 (1976).

2. The Federal Circuit's Decision Is Not Inconsistent With The Sixth Circuit's *LaMarre* Decision

Lees also argues that the Federal Circuit's decision is inconsistent with the Sixth Circuit's decision in *In re LaMarre*, 494 F.2d 753 (6th Cir. 1974). Lees never relied on *LaMarre* before the

Federal Circuit. Indeed, *LaMarre* is unrelated to this case. In *LaMarre*, the issue was whether vague "requests" by the district court, which the district court apparently understood to be orders, were in fact "orders" under the meaning of Fed. R. Civ. P. 37(b). Before the trial court and the Federal Circuit, Lees objected to the order because it was oral, not because it was a vague "request." Judge Hackett specifically addressed Lees' argument, and concluded that it was meritless:

> Defendants next argue that there was no order compelling the inspection and, in the absence of such an order, sanctions are inappropriate. The court notes that at the discovery status conference, the magistrate judge directed that the inspection be conducted within two weeks. Because the inspection was scheduled at the direction of the magistrate judge, it constitutes an order of the court.
>
> (58a-59a.)

Lees' contention that the Federal Circuit's decision is inconsistent with *LaMarre* has no merit.

B. The Federal Circuit's Decision Is Consistent With This Court's Decisions

Lees next argues that the Federal Circuit's decision is inconsistent with the decisions of this Court, and in particular *Ins. Corp. of Ireland v. Compagnie Des Bauxites*, 456 U.S. 694 (1982). Lees' argument assumes, however, that his egregious discovery conduct was directed only to the infringement count, and not to the tortious interference count in this case. That is simply untrue.

The plant inspection was critical to Ladney's tortious interference count. As mentioned above, Ladney contended that Lees interfered with his

rights by licensing technology exclusively licensed to Ladney. Lees contended he was not liable for tortious interference because, among other reasons, the technology he licensed in non-western hemisphere countries was different from the technology exclusively licensed to Ladney. To determine whether Lees' licensed technology was in fact different from the technology exclusively licensed to Ladney, Ladney needed to inspect Lees' facilities. By obstructing such inspection, Lees' discovery violations went to the heart of Ladney's case -- his tortious interference case, as well as his patent infringement case. The Federal Circuit recognized this fact when it stated:

> This inspection was necessary for Ladney and his expert to determine [for tortious interference] whether Encore was

> sub-licensing the "Encore process" or the "Baxi process" and [for patent infringement] whether the related apparatus of the process infringed U.S. Patent No. 4,781,544.
>
> (11a.)

C. The Courts Of Appeal Have Not Rendered Inconsistent Decisions Regarding Rule 37(b)

Encore's final argument for its Petition is that the circuits are split regarding the particular requirements for an "order" under Fed. R. Civ. P. 37(b). To the extent there are any differences between the circuits, however, they have no bearing on this case.

Lees raised one issue below with regard to the requirements of an "order" under Rule 37(b). Lees argued that when Magistrate Judge Binder directed Lees to provide his facilities for inspection, that direction was not an "order" under

Rule 37(b), because it was not reduced to writing.

None of the cases cited by Lees states that a written order is required to impose sanctions under Rule 37(b). Indeed, several circuits have held that an order need not be written to be an "order" under Rule 37(b). *See, e.g., Daval Steel Products v. M/V Fakredine*, 951 F.2d 1357, 1361-1363 (2d Cir. 1991); *McLeod, Alexander, Powel & Apffel, P.C. v. Quarles*, 894 F.2d 1482, 1485 (5th Cir. 1990) ("[A]n order is not always a prerequisite to the imposition of sanctions."); *Tamari v. Bache & Co. (Lebanon) S.A.L.*, 729 F.2d 469, 472-473 (7th Cir. 1984) ("[A]n attorney's promise in open court to produce certain documents 'could be treated as the equivalent of an order' for Rule 37(b) purposes."); and

Henry v. Sneiders, 490 F.2d 315, 318 (9th Cir. 1974) ("[T]he absence of a written order does not preclude the entry of a default judgment for failure to comply.").

Lees cites no cases inconsistent with the above. In cases where discovery sanctions were reversed, they were not reversed because the order allegedly violated was oral. Rather, they were reversed because the order did not clearly articulate what conduct was required. *See, e.g., Salahuddin v. Harris*, 782 F.2d 1127, 1131 (2d Cir. 1986).

It is unclear exactly what inconsistencies Lees is referring to when it cites these cases. What is clear is that there are no Rule 37(b) inconsistencies relevant to issues raised by Lees in this case.

III. CONCLUSION

For the foregoing reasons, Lees' Petition for Writ of Certiorari should be denied.

Respectfully submitted,

BROOKS & KUSHMAN P.C.

By: /s/

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